4 December 2020

BT Technical Podcast #32 – Transcript.

This week's podcast discusses what happened in Parliament this week, and a look at the SG discussion from the Retirement Income Review.

One week down, one week to go, and so far, not much to report. That would be my view of the first week of Federal Parliament's last scheduled sitting for 2020 which began at the start of this week.

Hello and welcome to this week's podcast. My name is Bryan Ashenden and I have the pleasure of leading the BT Technical Services team – a team of experts that are available to answer any technical advice strategy related queries you may have. In this week's podcast, we will take an all too brief look at what happened in Parliament this week, and a further focus on an area from the Retirement Income Review report, this time focussed on superannuation guarantee.

With high hopes that we would finally see the Bill to extend the eligibility for bring forward non concessional contributions to age 67 passed, unfortunately this did not occur, with no debate on the Bill even held. As time continues to pass with no movement, more Australians are facing potential disadvantages. You will recall that amending regulations were made earlier this year that pushed the requirement to meet the work test for non-concessional contributions from age 65 to age 67, with effect from 1 July 2020. The changes to the bring forward rule, which have a similar alignment, were (and still are) due to take effect from the same date.

Unfortunately, however, there are an increasing number of Australians who may be inadvertently disadvantaged because of the delay. This would be for those Australians who were aged 66 at 1 July 2020 and hoping to use the bring forward rule this financial year. If they have now turned 67, and assuming the Bill is ultimately passed, whilst they could still use the bring forward rule, they will need to meet the work test, or work test exemption, in order to make the contribution. And advisers will need to ensure that any work undertaken to meet this requirement is genuine employment to ensure there is no unintended breach of standard 1 of the FASEA Code of Ethics.

Hopefully when the Bill is passed, we may see some form of transitional relief provided to ensure that Australians in this situation are not unfairly disadvantaged - but like everything to do with this measure, only time will tell!

We had also hoped, or maybe expected, to see a Bill introduced to Parliament to give effect to the Royal Commission recommendations on annual consent requirements for ongoing fee arrangements, as well as for any advice fees payable from a superannuation account. Again, this Bill has not yet been introduced. With an unknown start date, getting clarity on this will be key for many advisers, advice firms, product, platform and superannuation fund providers. Perhaps we will find out next week.

Turning back to the Retirement Income Review, or slowly becoming known as the Callaghan Review (named after the chair of the Review Panel), this week we look a little deeper at the discussion around superannuation guarantee.

The report looked at both sides of the debate – leaving the SG rate unchanged at 9.5% obviously results in lower balances than if it increased to the legislated 12%. However, the report also found if the SG rate remained at 9.5% and people made more efficient use of their retirement savings, many would have higher replacement incomes than they would have with the SG at 12% and drawing down their balances at the legislated minimum rate. The report outlines several options for people to boost their retirement outcomes, including more effective drawing on super assets, achieving better after fee returns and accessing the equity in the home. From a financial planning perspective these are all factors that may be considered as part of retirement planning discussions with clients.

Super guarantee is an employment-based scheme and those who have longer periods of employment and higher incomes have higher superannuation balances and retirement incomes. It also concludes that those on higher incomes receive more tax advantages. The report found that voluntary super contributions are predominantly made by older, wealthier people. Given those on higher incomes receive a larger tax concession, this results in inequity within the system. However, this inequity is reduced in retirement as those on lower levels of income generally receive the largest Age Pension payments.

There is a gap in retirement savings and retirement incomes for women, as they are often employed in lower paid professions, take more career breaks for raising children and caring for others, and take on more part-time work. To combat the gender gap, the review received submissions with a range of suggestions including:

- removal of the $450 per month SG threshold,
- paying super on employer paid parental leave and Government Parental leave pay,
- disclosing super balances in divorce settlements,
- reducing super tax concessions for higher income earners,
- increasing support for lower income retirees who rent, and
- increasing the SG rate.

If the Government chooses to implement any of these initiatives, many will require substantive policy change.

When reflecting on the fairness of the SG system, its coverage needs to be examined. While SG is a mandatory entitlement for most employees, it doesn't cover the 17% of the workforce who are self-employed. And of the employed workforce, around 90% receive SG. As part of the submissions to the review, several suggestions were identified that could improve the equity within the system including:

- removing the $450 per month threshold,
- expanding the earnings base that attracts SG to include overtime,
- continuing to ensure people receive the SG they are entitled to receive through transparent processes,
- paying SG at the same time as wages, and
- enforcing sham contracting laws,

The review also acknowledged that a large proportion of people don't choose to retire, they are forced to retire. This has a flow on effect as they exit the workforce earlier than planned and with less super than expected. The review panel's research also suggests involuntary retirement before Age Pension eligibility age is more common among people with lower wealth, lower education levels and those in blue collar occupations. While setting policy to cater for those who retire early and involuntarily would be challenging, the report highlights factors that may need to be considered for effective targeted policy settings, such as:

- setting SG rates at higher levels for those in industries typically impacted by early and involuntary retirement,
- reconsidering the Age Pension eligibility age for people in certain industries or occupations who are more likely to retire involuntarily, and
- increasing the rate of JobSeeker payment.

While all these factors are worth considering, it is evident that further policy changes will be required to address any equity measures.

As a reminder, our final BT Academy technical webinar will be on Wednesday 16 December 2020 at midday when I'll be bringing you a State of the Nation address (technically speaking that is), where we can look back at what 2020 brought us (beyond COVID) and what is coming into 2021.

To register for our BT Academy technical webinars, look out for invites in your mail inbox, or you can simply head to www.bt.com.au/professional and follow the links to the BT Academy webinar series.

And as always, remember for any technical advice strategy considerations, you can call our BT Technical Services team on 1800 655 901 or send the team an email at technical@btfinancialgroup.com

Until next week, bye for now.